



REPORT BY THE
DEPARTMENT OF FISH & GAME
AUDITS BRANCH

WA-07-09

AUDIT OF
NORTH CENTRAL REGION
(LICENSE SALES FUNCTION)

APRIL 2008



State of California

Memorandum

To: S. Morey, Regional Manager
North Central Region

Date: April 23, 2008

From: Brian A. Kwake
Department of Fish and Game

Audit Control Number:
WA-07-09

Subject: Final Audit Report – North Central Region's License Sales Function

Attached is the final audit report of the North Central Region's (NCR) license sales function for the period July 1, 2005 through November 9, 2007. The audit was conducted under the authority of the Audit Branch's charter that established the AB as the unit responsible for conducting audits of the operating systems and programs of the Department of Fish and Game. The audit was performed in accordance with the *Standards for the Professional Practice of Internal Auditing* as required by the California Government Code, Section 1236.

We issued the draft audit report to NCR on March 7, 2008. The draft audit report requested a response to our audit findings within 30 days. We contacted NCR on April 21, 2008, and NCR concurred with our findings and recommendations. NCR chose not to provide a formal written response. NCR indicated they will implement changes to comply with these findings and recommendations.

We would like to thank the NCR staff for their time and cooperation. Should you have any questions, please contact Ky Nguyen at (916) 445-3385.

Attachment

cc: J. McCamman
T. Jordan
C. Jones
H. Carriker
D. Friedman
Audit File

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SUMMARY

The Department of Fish and Game's (DFG) Audits Branch (AB) performed an audit of the North Central Region's (NCR) license sales function. The audit was conducted to determine whether controls over the license sales function were adequate to ensure sales transactions were properly recorded, reported, and sales revenue was deposited, and whether the internal controls were adequate to ensure accountability for its consigned inventories of licenses, permits, tags, and stamps. The audit found the internal control structure over the license sales and inventory functions to be adequate, except:

- NCR did not perform the semi-annual reconciliation of the license inventory;
- License sales function separation of duties should be improved; and
- Improve procedures over inventory and sales reporting.

BACKGROUND

The DFG has 11 regional and field offices that offer license sales to the public. The License and Revenue Branch (LRB) sales manual provides the DFG offices instruction on license issuance, deposit, accounting, cashiering, and reporting requirements. The License Agent System (LAS) provides a method of accounting for the sale of various licenses, permits, stamps, and other items distributed by the LRB. Part of this LAS function is the actual distribution of the various items of inventory maintained by the LRB.

Under the authority of the AB charter, the AB has initiated audits of the DFG's license sales at the 11 regional and field offices in order to provide management reasonable, but not absolute, assurance that the DFG offices are in compliance with laws relating to the sale of commercial and sport licenses. As part of this process, the NCR was selected for audit.

SCOPE, METHODOLOGY, AND OBJECTIVES

The DFG's AB reviewed the NCR's license sales function for the period July 1, 2005, through November 9, 2007. Our audit was conducted in accordance with *Governmental Auditing Standards* issued by the Comptroller General of the United States and the *Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, Inc.

Our study and evaluation included a review of applicable laws and regulations, as well as regional sales and inventory records. Audit tests and other audit procedures considered necessary to meet audit objectives were included. These tests consisted of documenting the cash and inventory internal controls, identifying control strengths and weaknesses, performing compliance testing of the license sales functions, verifying inventories, documenting and evaluating adequate separation of duties.

The objectives of the audit were to provide the DFG's management with reasonable, but not absolute, assurance that:

- Controls over the license sales functions were adequate to ensure that sales transactions were properly authorized, supported, recorded, and deposited.
- Controls were adequate to ensure accountability of inventories assigned to the office and inventories consigned to the individual sales clerks.

CONCLUSION

In our opinion, the NCR has properly recorded, deposited, reported license revenue, and accounted for inventory valued at \$ 699,626.75. The internal accounting and administrative control structure over cash receipts and inventory at the NCR in effect at November 9, 2007, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the license sales inventory, except for the weaknesses described in the Findings and Recommendations Section of this audit report.

Brian A. Kwake, Chief
Audits Branch

February 29, 2008
(End of Fieldwork)

Audit Staff: Ky Nguyen, Auditor

FINDINGS

AND

RECOMMENDATIONS

FINDING 1 SEMI-ANNUAL RECONCILIATION OF LICENSE INVENTORY NOT PERFORMED

The NCR did not perform the semi-annual reconciliation of license inventory. This issue was previously reported in the audit report number WA 03-10 dated January 6, 2004.

In accordance with the LRB's *Cash Register and Cash Transfer Policies and Procedures* manual, page 20, inventory reconciliation should be performed semi-annually in April and October. Further, the California Government Code (CGC), Section 13402, requires that a satisfactory system of internal accounting and administrative control include a method to limit access to State assets to authorized personnel and maintain a system of record keeping that is adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

Without performing the semi-annual reconciliation of license inventory on a required basis, State assets are at a greater risk of loss or theft and necessary corrections to the LAS could not be made.

RECOMMENDATION

The NCR should conduct the semi-annual physical inventory. This reconciliation should be performed by someone other than the inventory custodian, counter sales personnel, or the person receiving the inventory shipments. If the Semi-Annual Inventory Statement is not received for the April and October periods, the NCR should contact the LRB and request a copy of the statement for the purpose of completing its semi-annual reconciliation.

FINDING 2 LICENSE SALES FUNCTION SEPARATION OF DUTIES SHOULD BE IMPROVED

The NCR does not always properly separate its employee's duties relative to the license sales function. As a result of the improper separation of duties, the NCR is susceptible to possible errors or irregularities that may not be detected. This issue was previously reported in the audit report number WA 03-10 dated January 6, 2004.

During the review, we disclosed the following improper separation of duties:

- The cash custodian prepares the daily deposit slip and deposits all monies for the NCR. In addition, the cash custodian reviews and balances sales staff reports, prepares sales and inventory reports to License Revenue Branch (LRB) and reconciles quarterly statements to in-house inventory.
- The NCR License Sales and Cash Handling Policies and Procedures, revised April 21, 2006, inappropriately requires the cash custodian to perform the duties stated above.

The State Administrative Manual (SAM), Section 8080.1 requires the NCR adequately separate cash collection functions. Duties that must be segregated include the maintenance of record files, the receipt and depositing of remittances, inputting of receipt information, and the reconciliation of input to output. Further, the CGC, Section 13402, requires a satisfactory system of internal accounting and administrative control to include an organizational structure that segregates duties to ensure the adequate protection of State assets. Finally, the Cash Register and Cash Transfer Policies and Procedures manual issued by LRB, requires separation of duties over three functional areas: license sales, cash custodian, and inventory custodian.

RECOMMENDATION:

The NCR needs to provide for the appropriate separation of duties. No one person should be responsible for more than one of the following areas: license sales, cash custodian, and inventory custodian. Each area should have a primary person responsible with at least one backup person who is not involved in the other primary functions.

The NCR's License Sales Policies and Procedures should be revised to reflect a proper separation of duties between the cash custodian and the inventory custodian function.

FINDING 3 IMPROVE PROCEDURES OVER INVENTORY & SALES REPORTING

NCR was delinquent in submitting deposit slips, sales and deposit reports along with fully and partially sold books of licenses to LRB. Sales and deposit reports for sales periods August 1 to 20, 2007, August 21 to September 7, 2007, and September 8 to October 5, 2007 were submitted to LRB in December 2007.

License and Revenue Memorandum 01-02 requires regions to submit deposit slips for license sales to LRB weekly, and sales and deposit reports to LRB by the 20th of each month for all previous month's sales, along with both fully and partially sold books of licenses. NCR staff cited lack of personnel as the reason for delays.

RECOMMENDATION:

NCR should submit reports to LRB timely. Improved coordination between staff is necessary to timely process reports internally before submittal to LRB.